

You should also provide any other information you believe would be useful to USAC in determining whether or not have adequately addressed the audit findings that resulted in the non-compliance. You must provide this proof within six months of the date of this letter, or you must provide a reasonable explanation for delay and a date certain by which you will provide the required information. Failure to provide the required information within the designated time period may result in denial of pending requests for funding and rejection of invoices submitted for payment.

The information and documentation requested above should be sent to:

Universal Service Administration Company
2000 L. Street, N.W., Suite 200
Washington, DC 20036
Attn: Cynthia L. Beach

USAC'S REVIEW OF YOUR COMPLIANCE WITH THIS REQUEST

USAC will review your submission to determine whether it reasonably complies with the requirements set forth in this letter and demonstrates that you have adequately addressed the audit finding(s) that resulted the non-compliance. USAC may seek additional information and documentation from you as it makes this determination.

If USAC determines that you have reasonably complied with this request and that you have adequately addressed the audit finding(s) that resulted in the non-compliance, you will be provided with written notification, and USAC will commence reviewing pending FCC Forms 471 containing FRNs associated with your entity. If USAC determines that you have not reasonably complied with this request, USAC will deny pending FRNs associated with your entity. Should this situation occur, you will be able to request review of USAC's decisions consistent with the procedure set out below.

FCC REVIEW OF USAC'S DETERMINATION AS SET FORTH IN THIS LETTER

If you disagree with USAC's determination that it will not make pending or future funding commitments until you have complied with the request in this letter, you may file an appeal with the Federal Communications Commission (FCC). You should refer to CC Docket No. 02-6 on the first page of your appeal to the FCC. Your appeal must be **POSTMARKED** within 60 days of the above date on this letter. Failure to meet this requirement will result in automatic dismissal of your appeal. If you are submitting your appeal via United States Postal Service, send it to: FCC, Office of the Secretary, 445 12th Street SW, Washington, DC 20554. Further information and options for filing an appeal directly with the FCC can be found in the "Appeals Procedure" posted in the Reference Area of the SLD web site or by contacting the Client Service Bureau. We strongly recommend that you use either the e-mail or fax filing options.

Sincerely,



Cynthia L. Beach
Manager of Audit Response:

cc: Immaculate Conception School w/o enclosure



OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: March 24, 2004

TO: Chairman

FROM: Inspector General

SUBJECT: Report on Audit of the E-rate Program at Immaculate Conception School

The Office of Inspector General (OIG) has completed an audit at Immaculate Conception School (ICS), a beneficiary of the Universal Service Fund (USF). A copy of our audit report no. 02-AUD-02-04-20, entitled "Report on Audit of the E-rate Program at Immaculate Conception School" is attached for your review and comment. The objective of this audit was to assess the beneficiary's compliance with the rules and regulations of the USF program and to identify program areas which may need improvement.

We have concluded that ICS was not compliant with the requirements of the program for funding years 1998 through 2000. The audit resulted in seven (7) specific findings and \$68,846 identified as potential fund recoveries. We recommend that the Wireline Competition Bureau direct the Universal Service Administrative Company (USAC) to recover the amount of \$68,846. In addition, we recommend that the Wireline Competition Bureau take steps to ensure that funding requests are adequately reviewed in accordance with existing program rules and implementing procedures to ensure that funding requests associated with such systemic noncompliance with program rules and regulations are not approved. Further, we recommend that the Wireline Competition Bureau review those program rules and implementing procedures governing the areas of noncompliance cited in this report to ensure that those program rules and implementing procedures are adequate to protect the interests of the fund.

We held an exit conference on December 2, 2003 with the beneficiary's representatives and requested their comments on the result of this audit. They concurred with the results of the audit and noted that they had disclosed most of the issues at the outset of our audit. They also provided a written response to the findings; see Appendix 1 of the report for their comments.

We provided management with a copy of our draft report on February 25, 2004 and requested they provide comments on their concurrence with the findings of the audit. In a response dated March 22, 2004, the Wireline Competition Bureau (WCB) indicated that they concurred with our three audit recommendations. WCB's response is included in its entirety in Appendix 2 to the report.

If you have any questions, please contact Thomas Cline, Assistant Inspector General-Program Audits, at (202) 418-7890.


H. Walker Feaster III

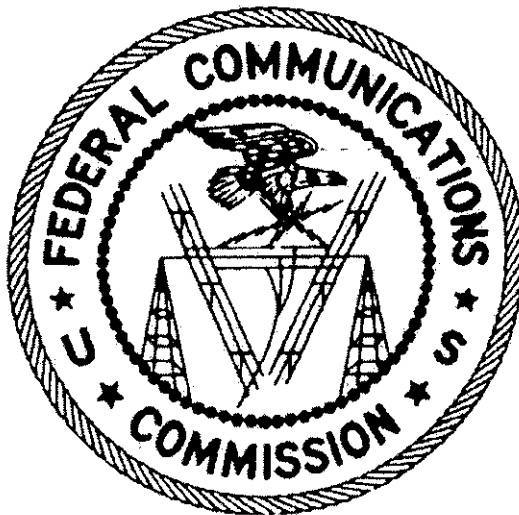
Attachment

Copy furnished:

Sr. Patrice Owens, Principal, Immaculate Conception School
George McDonald, Vice President, Schools and Libraries Division, USAC
Chief, Wireline Competition Bureau
Performance Evaluation and Records Management, FCC Office of Managing Director

FEDERAL COMMUNICATIONS COMMISSION


OFFICE OF INSPECTOR GENERAL

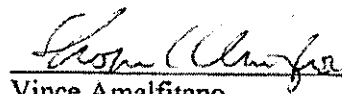


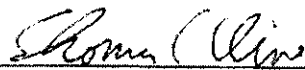
Report on Audit of the E-Rate Program at Immaculate Conception School

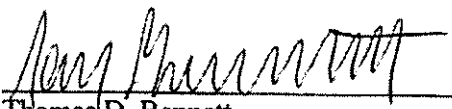
Report No. 02-AUD-02-04-20

March 24, 2004


Walker Feaster III
Inspector General


Vince Amalfitano
Senior Auditor


Thomas C. Cline
Assistant Inspector General for Audit


Thomas D. Bennett
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Report on Audit of the E-rate Program at Immaculate Conception School

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Report on Audit of the E-rate Program at Immaculate Conception School

EXECUTIVE SUMMARY

On May 7, 1997, the FCC adopted a Universal Service Order implementing the Telecommunications Act of 1996. Included in this Order was the Schools and Libraries Support Mechanism of the USF (hereinafter known as the E-rate program) in which all eligible schools and libraries can receive discounts from the USF on eligible communication services ranging from 20 to 90 percent, depending on economic need and location. The OIG has designed a program of audit oversight to provide FCC management with a reasonable level of assurance that beneficiaries are complying with program rules and that program controls are adequate to prevent fraud, waste and abuse.

The OIG has completed an audit of Immaculate Conception School (ICS). The objective of this audit was to assess the beneficiary's compliance with the rules and regulations of the USF program and to identify areas in which to improve the program. ICS is a Catholic school located in the south Bronx section of New York City and teaches pre-kindergarten to 8th grade classes. The period of our audit was from January 1, 1998 to June 30, 2002, which comprises Funding Years (FY) 1998 through 2001 of the E-rate program.

ICS received funding commitments of \$616,001 for internal connections, Internet access and telecommunications services during the period of audit FY 1998 through FY 2001, of which \$500,142 or about 83% was committed for internal connections. A total of \$246,969 was disbursed for this period; of this amount \$126,895 was paid to Connect 2 for internal connections and Internet access. Although \$314,409 was committed for FY 2000 internal connections and Internet access to have been provided by Connect 2, no funds were disbursed.

Our audit of the use of E-rate funds at ICS disclosed that the beneficiary and the service provider were not compliant with the requirements of the program for FY 1998 through 2000 (no findings related to FY 2001). The audit resulted in seven (7) specific findings and in \$68,846 identified as potential fund recoveries that include internal connections paid for and not provided, over billing for Internet access and reimbursement for ineligible services. We recommend that the Wireline Competition Bureau direct the Universal Service Administrative Company (USAC) to recover the amount of \$68,846. In addition, we recommend that the Wireline Competition Bureau take steps to ensure that funding requests are adequately reviewed in accordance with existing program rules and implementing procedures to ensure that funding requests associated with such systemic noncompliance with program rules and regulations are not approved. Further, we recommend that the Wireline Competition Bureau review those program rules and implementing procedures governing the areas of noncompliance cited in this report to ensure that those program rules and implementing procedures are adequate to protect the interests of the fund.

We held an exit conference on December 2, 2003 with the beneficiary's representatives and requested their comments on the result of this audit. They concurred with the results

Report on Audit of the E-rate Program at Immaculate Conception School

of the audit and noted that they had disclosed most of the issues at the outset of our audit. They also provided a written response to the findings; see Appendix 1 of the report for their comments.

We provided management with a copy of our draft report on February 25, 2004 and requested they provide comments on their concurrence with the findings of the audit. In a response dated March 22, 2004, the Wireline Competition Bureau (WCB) indicated that they concurred with our three audit recommendations. WCB's response is included in its entirety in Appendix 2 to the report.

BACKGROUND INFORMATION

In accordance with the Inspector General Act of 1978, as amended, the Office of Inspector General (OIG) at the Federal Communications Commission (FCC) has oversight responsibilities for the Universal Service Fund (USF) as a federal program of the FCC. The USF provides affordable access to specified communications services for schools, libraries, rural health care providers, low-income consumers and companies serving high-cost areas. On May 7, 1997, the FCC adopted a Universal Service Order implementing the Telecommunications Act of 1996. Included in this Order was the Schools and Libraries Funding Mechanism of the USF (hereinafter known as the E-rate program) in which all eligible schools and libraries can receive discounts from the USF on eligible communication services ranging from 20 to 90 percent, depending on economic need and location. The Universal Service Administrative Company (USAC) is responsible for administering the Fund under the direction of the FCC's Wireline Competition Bureau (WCB). The Schools and Libraries Division (SLD) of USAC administers the E-rate program.

USF discounts can be applied to three kinds of services and products:

- Telecommunication services, including basic phone service.
- Internet access.
- Internal connections, including wiring and network equipment needed to bring information directly to classrooms or library patrons.

ICS is a Catholic school located in the south Bronx section of New York City and teaches pre-kindergarten to 8th grade classes. ICS received funding commitments of \$616,001 for internal connections, Internet access and telecommunications services during the period FY 1998 through 2001, of which \$500,142 or about 83% was committed for internal connections. A total of \$246,969 was disbursed for this period; of this amount \$126,895 was paid to Connect 2 for internal connections and Internet access. Although \$314,409 was committed for FY 2000 internal connections and Internet access to have been provided by Connect 2, no funds were disbursed.

Report on Audit of the E-rate Program at Immaculate Conception School

AUDIT OBJECTIVE AND SCOPE

The OIG has designed a program of audit oversight to provide FCC management with a reasonable level of assurance that beneficiaries are complying with program rules and that program controls are adequate to prevent fraud, waste and abuse. The objective of this audit was to assess the beneficiary's compliance with the rules and regulations of the USF program and to identify areas in which to improve the program.

The scope of this audit was designed to test beneficiary compliance with program requirements contained in Title 47, Part 54 of the Code of Federal Regulations (47 CFR 54.500 through 47 CFR 54.520) which provide that:

- The beneficiary determines its discount percentage by the percentage of their student enrollment that is eligible for a free or reduced price lunch under the national school lunch program or a federally-approved alternative mechanism.
- A process has been established to select the most cost effective service provider.
- Equipment and services are purchased in accordance with applicable procurement rules and regulations, and the applicant has paid its portion of the pre-discounted costs.
- Services rendered are consistent with what the beneficiary presented on its application for E-rate funds and were installed or provided before the installation deadline.
- The beneficiary has adequate resources, as certified, to use the discounted service for which funding has been provided.
- The beneficiary has an approved technology plan, as certified.

The period of our audit was from January 1, 1998 to June 30, 2002, which comprises Funding Years (FY) 1998 through 2001 of the E-rate program.

We performed our audit at ICS and inspected the internal connections and supporting facilities housed at this school. ICS made three requests for change of SPIN (Service Provider Identification Number) from Connect 2 to Elite Systems, Inc. In these requests ICS alleged that Connect 2 billed SLD for services and products not provided to ICS as obligated under contract for FY 1998 and FY 1999. More specifically, ICS alleges Connect 2 neither delivered nor installed two servers and more than twenty (20) hub devices in FY 1999, provided ISDN service and billed SLD for a full T-1 service, performed substandard work, was not responsive to maintenance calls, and did not completely charge ICS its matching 10% pre-discount E-rate share. Our audit verified most of these allegations.

This audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. As part of the scope of our audit, we obtained an understanding of the specific management controls relevant to the E-rate program. Because of inherent limitations, a study and evaluation made for the limited

Report on Audit of the E-rate Program at Immaculate Conception School

purposes of our audit would not necessarily disclose all material weaknesses in the control structure. However, we identified significant management weaknesses as discussed in the Audit Results section of this report and in Finding Numbers 2, 3, 4, 5, 6 and 7.

AUDIT FINDINGS AND RECOMMENDATIONS

Our audit of the use of E-rate funds at ICS disclosed that the beneficiary was not compliant with the requirements of the program for FYs 1998 through 2000. No findings related to the use of E-rate funds during FY 2001. The service provider, Connect 2, did not provide the internal connections and Internet access that were paid for and was not compliant in many respects with the requirements of the program. We found the lack of controls by ICS, the beneficiary, contributed to the over billing by the service provider. The following findings resulted in noncompliant and/or inappropriate funding disbursements:

1. The beneficiary did not pay the entire non-discounted portion of the costs.
2. Internal connections equipment purchased with E-rate funds was missing, resulting in overpayments of \$33,060.
3. The service provider billed for T-1 internet access but provided less functional integrated services digital network (ISDN) service, resulting in overpayments of \$16,065.
4. Wiring and installation costs were determined to be unreasonable for FY 1999, resulting in \$19,440 in inappropriate funding disbursements.
5. Ineligible telecommunications services were claimed on FCC Form 472 Billed Entity Reimbursement Application (BEAR) Forms for FY 2001, resulting in over-reimbursements of \$281.
6. There was no documented competitive bidding process.
7. Support was lacking for the calculation of the E-Rate discount percentage for FYs 1998 and 1999.

FINDINGS

Finding 1 of 7 - The beneficiary did not pay the entire non-discounted portion of the costs.

ICS paid only \$7,235 of the \$14,100 non-discounted portion for goods and services received in FYs 1998 and 1999, broken down as follows:

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<u>E-rate Services and Products</u>	<u>Non-discounted portion</u>	<u>Amount Paid by ICS</u>	<u>Difference</u>
FY 1998 Internet Access	\$ 616	\$ 616	
FY 1998 Internal Connections	5,390	247	\$5,143
FY 1999 Internet Access	1,848	126	<u>1,722</u>
FY 1999 Internal Connections	<u>6,246</u>	<u>6,246</u>	
Total	<u>\$14,100</u>	<u>\$ 7,235</u>	<u>\$6,865</u>

The current principal of the school stated that ICS did not receive donations or had payments waived by any vendor that provided E-rate services and products during FY 1998 thru FY 2001, except for the fact that Connect 2 did not completely bill all services in FY 1998 and FY 1999. According to the E-rate coordinator at ICS and dates of invoices examined, Connect 2 billed the outstanding amount of \$5,143 for FY 1999 on October 27, 2000 after ICS complained to them and USAC about negligent services, missing equipment and not being billed for its 10% non-discount E-rate portion. However, ICS did not pay this invoice due to disputes about the goods and services received.

The former principal of the school stated that for FY 2000 Connect 2 was going to waive the 10% pre-discount portion of the approved funding requests for internal connection and internet access "because ICS was good customer." However, no dollars were disbursed by USAC in connection with the approved funding requests for internal connections and Internet access in FY 2000.

In FY 2001, Elite System billed and was paid by ICS \$ 16,500 through June 30, 2002. Of this, \$12,800 represents the full 10% matching E-rate share of the pre-discount amount committed for internal connections, maintenance and Internet access for FY 2001. The remaining \$3,700 is for telephone equipment and ineligible E-rate items.

The FCC, in Universal Service Order CC Docket 96-45 (FCC97-157,) stated that requiring applicants to pay their share would ensure efficiency and accountability in the program. Paragraph 493 of the Order states:

Requiring schools and libraries to pay a share of the cost should encourage them to avoid unnecessary and wasteful expenditures because they will be unlikely to commit their own funds for purchases they cannot use effectively. A percentage discount also encourages schools and libraries to seek the best pre-discount price and to make informed, knowledgeable choices among their options, thereby building in effective fiscal constraints on the account fund.

ICS' failure to account and pay for its share of the non-discounted portion of E-rate services as certified on Form 471 Service Ordered and Certification Form, Block 6, Item 22, is not in compliance with program rules and requirements and would normally lead to a full recovery of funds disbursed. However, our discussions with WCB have indicated

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that factors such as those present at ICS that can mitigate this result. ICS realized that Connect2 was billing the school and USAC for goods and services not being provided and both declined to pay for the missing items and advised USAC of the situation. In our opinion, ICS's actions present mitigating factors that would preclude a recommendation for full recovery of funding based on this finding.

Finding 2 of 7 - Internal connections equipment purchased with E-rate funds were missing, resulting in overpayments of \$33,060.

For FYs 1998 and 1999, our on-site inspection of the internal connections equipment and audit of supporting documentation revealed that some E-rate equipment could not be found and some of the equipment installed was significantly different from the equipment listed on the approved Form 471 (Services Ordered and Certification Form), Item 17 attachment quote/contract. SLD approved, committed and disbursed funds to Connect 2 based on the approved Form 471 funding request numbers. The physical inventory at ICS revealed that twenty-two (22) equipment units, for which SLD disbursed \$33,060 of funding (the pre-discount price of this equipment was \$36,733), were missing. The following table shows the equipment items not found and the associated pre-discount charge.

Equipment	Units	Pre-Discount Price
File Server Dell PowerEdge 2300 Server w/tape unit, monitor, CD ROM.	2	\$13,800
Bay Networks 12 Port 10/100 Auto Hub	23	23,897
Bay Networks Smart Hub, 24 Port 10/100	1	1,432
3COM 8 Port Hubs	-4	(2,396)
Total	22	\$36,733

Note that this table includes four 3COM 8 port hubs that were installed by Connect 2, but were not on the original inventory listing. We were able to ascertain the value of these hubs and reduced the cost of the missing equipment because it is possible these hubs were installed in lieu of other equipment. Additionally, a Cisco router and T-1 Manager unit believed to have been provided by Connect 2 were found at ICS; however, we were not able to determine the value of these items or whether they were substituted products.

ICS alleges Connect 2 neither delivered nor installed two servers and more than 20 hubs in FY 1999. The ICS E-rate coordinator stated that, because of Connect 2's lack of response and resolution to network service problems, ICS contracted with "Network Outsource.com", a consultant that performed a complete technology inventory of the hardware and a test of ICS' LAN network and access to the Internet. This inventory list (dated November 2000) shows hubs, switches, servers and personal computers (PCs), by make, and type number of ports; however, the two servers and the twenty-three (23) plus hub equipment items in question were not listed.

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On the FCC Form 473 (Service Provider Certification Form), the service provider certifies that charges reflected on the FCC Form 474 (Service Provider Invoice Form) will be based on bills or invoices billed to the beneficiary. Moreover, instructions to Form 474 require that the service provider has to provide the products and services and to bill the school or library for the non-discounted portion prior to submitting a FCC Form 474 to USAC/SLD.

In FY 1998 Connect 2 Internet Networks, Inc. (Connect 2) substituted the total number of hub units contained in the original contract with a lesser number of more expensive hubs with supposedly more capabilities. For example, twenty-three (23) units 12-port hubs priced at \$599 each were substituted with eleven (11) 12-port smart hubs priced at \$1,039 each. However, the total contract amount for the funding request remained relatively unchanged (a revised contract showed a difference of \$244 in total price). Because the amounts invoiced by Connect 2 on the FCC Form 474 (Service Provider Invoice Form) were submitted as line items in the aggregate by funding request numbers (FRNs) without any breakdowns by unit/price, SLD had no knowledge of any product substitutions and relied on the original service/equipment list attached to Item 17 of the FCC Form 471 (Services Ordered and Certification Form). Consequently, SLD approved the disbursement to the extent the E-rate funds requested did not exceed the approved committed FRN amounts. SLD has no record of these substitutions, and therefore, issued no letters authorizing these substitutions. However, we were unable to determine if the substituted equipment resulted in a less functional system.

For FY 2001, ICS changed their service provider for internal connections and Internet access and monitored the eligible and ineligible products, paid for the ineligible services and products and paid its matching 10% share of E-rate services. There were minor substitutions that were approved by SLD. In addition, asset inventory records and proof of receipt E-rate services and products, etc., were maintained in accordance with SLD requirements.

We believe that poor controls at ICS contributed to this finding. For FY 1998 thru FY 2000, ICS lacked the appropriate controls to monitor and ensure that E-rate products and services were purchased in accordance with E-rate requirements. During these funding years, the service provider, Connect 2, appears to have been inappropriately involved in ICS's application process. This activity included the preparation of some FCC forms, i.e., FCC Form 471 (Services Ordered and Certification Form) and FCC Form 486 (Receipt of Service Confirmation Form) on behalf of ICS that were filed with SLD. ICS did not maintain asset records, lacked proof that all E-rate funded internal connections had been received and installed by the cut-off date, and did not ensure that E-rate funded services were provided within the allowable contract period/Funding Year. Nonetheless, ICS certified on FCC Form 486 that services were being provided, thus allowing Connect 2 to file FCC Form 474 (Service Provider Invoice Form) and receive payment from SLD.

We conclude that in FYs 1998 and 1999, the service provider was paid \$33,060 for equipment that was not provided to the beneficiary.

Report on Audit of the E-rate Program at Immaculate Conception School

Finding 3 of 7 - The service provider billed for T-1 internet access but provided less functional ISDN services, resulting in overpayments of \$16,065.

Using Verizon Communications Inc.'s (Verizon d/b/a Bell Atlantic) customer billing records, it was determined that ICS had ISDN service only from March 1999 to May 2000. Connect 2 began to provide T-1 service on June 9, 2000 and disconnected this service on February 7, 2001. SLD paid Connect 2 a total of \$22,176 for FY 1998 and FY 1999.

We have determined that the service provider, Connect 2, was over paid \$16,065 for monthly recurring charges for ISDN service for Internet access billed at rates for a full T-1 service during FY 1998 and FY 1999. The calculation of this amount is too voluminous for inclusion in this report, but can be made available upon request.

The Development Director and E-rate coordinator at ICS stated that Connect 2 began to provide T-1 service only after she complained about Internet access speed in September-November 2000. We were provided copies of several pieces of correspondence from John Angelides of Connect 2 to ICS, in which Connect 2 acknowledged that they had been providing ISDN service in lieu of T-1 service.

On the FCC Form 473 (Service Provider Certification Form), the service provider certifies that charges reflected on the FCC Form 474 (Service Provider Invoice Form) will be based on bills or invoices billed to the beneficiary. Moreover, instructions to Form 474 require that the service provider has to provide the products and services and to bill the school or library for the non-discounted portion prior to submitting a FCC Form 474 to USAC/SLD. In addition, the FCC Rules in Sec. 54.507 (b) states that a funding year for purposes of the schools and libraries cap shall be the period July 1 through June 30; and Section 54.507(e) states that if schools and libraries enter into long term contracts for eligible services, the Administrator (USAC/SLD) shall only commit funds to cover the pro-rated portion of such a long term contract scheduled to be delivered during the funding year for which universal service support is sought. Connect 2 over-billed SLD for the ISDN services based on rates for T-1 services for Internet access for FY 1998 and FY 1999 and was not in compliance with program rules and regulations.

Finding 4 of 7 - Wiring and installation costs were determined to be unreasonable for FY 1999, resulting in \$19,440 in inappropriate funding disbursements.

Connect 2 charged \$43,200 in pre-discount charges for wiring, "integration" and cabinets/penetration. This amount was billed in FY 1998 as \$21,600 broken down into \$13,650 for wiring, \$4,000 for integration, \$3,950 for cabinets/penetration, and in FY 1999 as \$21,600 broken down into \$17,600 for wiring and \$4,000 for integration. SLD paid Connect 2 for the committed amount for both funding years. Wiring is labor intensive and includes drilling, wiring, cabling, and installing conduit covers and patch panels, while integration is basically testing and completing the network interfaces to the

Report on Audit of the E-rate Program at Immaculate Conception School

devices to ensure the network access is functioning properly. Based on discussions held with ICS staff, Connect 2 wired ICS in the spring to fall of 1999, with most of the work being completed by the summer of 1999. Program rules allow for the completion of internal connections installation work by the end of September after the end of the funding year. We believe the internal connections work performed in the early part of FY 1999 was minimal, if any at all, given that the two servers and twenty-three hub equipment units purchased in FY 1999 were never provided and installed as contracted (see Finding 2). Therefore, we conclude that wiring and integration costs of \$19,440 paid by SLD (based on the pre-discount price of \$21,600 and ICS' 90% E-rate discount) was not commensurate with the work performed and constitutes an unreasonable waste of Fund resources.

Finding 5 of 7 - Ineligible telecommunications services were claimed on FCC Form 472 BEAR Forms for FY 2001, resulting in over-reimbursements of \$281.

For FY 1999 and FY 2000, ICS filed FCC Form 472 BEAR Form with SLD to obtain reimbursement for services that ICS paid for telecommunications services provided by Verizon Communications (Bell Atlantic d/b/a New York Telephone) and AT&T. ICS paid 100% of the charges and was reimbursed through these service providers for the 90% E-rate discount. Our audit of the supporting records for the telephone charges disclosed that the Verizon/Bell Atlantic amounts included a telephone line earmarked as an alarm line. We inquired as to the actual or estimated monthly charge that was charged for this line. According to the ICS representative, the telephone line for the alarm was installed during FY 2001 (7/2000-6/2001) and the associated monthly charge of \$26 was inadvertently included in the phone charges filed on Form 472 BEAR.

The USAC/SLD Eligible Services List, dated January 29, 2000, states that telecommunications services used in connection with burglar/fire alarm equipment are not eligible for E-rate funding. Therefore, SLD over-reimbursed ICS \$281 based on their 90% E-rate discount (\$26 per month x 12 months x 90% discount rate). For FY 2001, the monthly charges for the alarm telephone line were being deducted from the total amount requested on the Form 472 BEAR form.

Finding 6 of 7 - There was no documented competitive bidding process.

For FYs 1998 through 2000, ICS contracted with Connect 2 for internal connections and Internet access. Based on interviews of key personnel at ICS and audit of contract proposals on file, we conclude that ICS had not participated in any real competitive bidding process as required under Section 54.504(a) and Section 54.511, (a) of the Commission's rules. ICS' selection process did not include any competitive bidding techniques or cost/benefit analysis with costs being the major selection factor. Former staff at ICS claimed that several vendors made presentations to them for FY 1998, but no documentation was provided to substantiate those statements. No competitive bidding process took place for FY 1999 and FY 2000 as the former principal at ICS decided to retain Connect 2 under contract, claiming satisfaction with work performed by Connect 2.

Report on Audit of the E-rate Program at Immaculate Conception School

In addition, the former principal indicated that it was understood that Connect 2 would not bill ICS its matching 10% non-discount E-rate share for FY 2000.

Title 47 CFR 54.504, Requests for Service (a) competitive bidding requirement, provides that all eligible schools, libraries and consortia including those entities shall participate in a competitive bidding process, pursuant to the requirement established in this subpart, but this requirement will not preempt state or local competitive bidding requirements. Section 54.511, Ordering Service, (a) Selecting a provider of eligible services, provides that in selecting a provider of eligible services, schools, libraries and consortia including any of those entities shall carefully consider all bids submitted and may consider relevant factors other than the pre-discounted prices submitted by providers. ICS was not able to provide documents that would support the soundness of their management of the E-rate funding or compliance with Title 47 CFR 54.504 and 511.

For FY 2001, ICS entered in contract with Elite Systems, Inc., based on recommendations from other archdiocesan schools. ICS provided documentation of proposals received from three other prospective vendors for FY 2001.

Finding 7 of 7 - Support was lacking for the calculation of the E-Rate discount percentage for FYs 1998 and 1999.

ICS was unable to provide the 1997 applications for free or reduced lunch under the National School Lunch Program (NSLP) that were used to support the 90% E-rate discount rate reflected on the FCC Form 471 (Services Ordered and Certification Form) approved for FYs 1998 and 1999. Student application data supporting the count for free and reduced lunch reported under the NSLP was maintained on file for a three year period and was no longer available during the timeframe of our audit. We were provided with letters from the Archdiocese of New York Department of Education Child Nutrition and Food Management Services (ANYCNFM), certifying the student enrollment count and eligibility count. We also interviewed the ANYCNFM staff in order to obtain an understanding of the procedures used to rate applications which are based on state provided guidelines for all the funding years. Our audit found that the support for the E-rate discount calculation in FYs 2000 and 2001 was adequate.

Title 47 CFR 54.505 stipulates that the level of discount on the cost of eligible services that a school may qualify for is based on the percentage of its students who qualify for free or reduced price lunches under the national school lunch program (NSLP). As part of the certification on the FCC Form 471 (Services Ordered and Certification Form) and other forms, schools and libraries are put on notice that these records may be audited and commit to retain for five years any and all worksheets and other records used to fill the application for e-rate funds.

Report on Audit of the E-rate Program at Immaculate Conception School

RECOMMENDATIONS

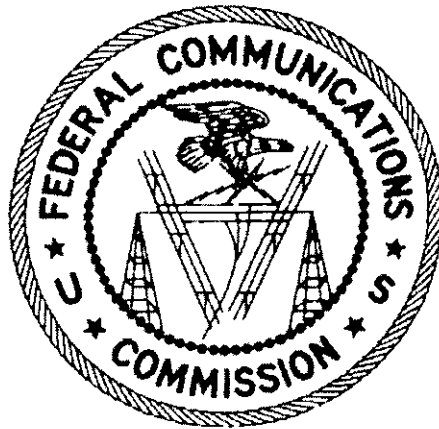
Recommendation 1 of 3 – We recommend that the Wireline Competition Bureau direct the Universal Service Administrative Company to recover the amount of \$68,846 disbursed on behalf of ICS that relate to noncompliance with program regulations and waste and abuse of the USF.

Recommendation 2 of 3 - We recommend that the Wireline Competition Bureau take steps to ensure that funding requests are adequately reviewed in accordance with existing program rules and implementing procedures to ensure that funding requests associated with such systemic noncompliance with program rules and regulations are not approved.

Recommendation 3 of 3 - We recommend that the Wireline Competition Bureau review those program rules and implementing procedures governing the areas of noncompliance cited in this report to ensure that those program rules and implementing procedures are adequate to protect the interests of the fund.

FEDERAL COMMUNICATIONS COMMISSION

OFFICE OF INSPECTOR GENERAL



Report on Audit of the E-Rate Program at Immaculate Conception School

Report No. 02-AUD-02-04-20

APPENDIX 1 – Auditee’s Response

Immaculate Conception School*Spreading love in the South Bronx since 1854*

378 East 151st Street
Bronx, NY 10455
(718) 585-4843

Mr. Thomas Cline
Office of the Inspector General
Federal Communications Commission
445 12th Street, SW
Room 2-C762
Washington, DC
20554

02 December 2003

Dear Mr. Cline,

Thank you for speaking with our principal, Sr. Patrice Owens, and me today, for clarifying some of the FCC audit findings, and for explaining your role in the audit process. We found your information very helpful and we thank you for your time. Please find following our comments on the audit report you issued us yesterday, 01 December 2003, in conjunction with the work done by Vince Amalfitano.

1. The missing equipment and excessive disbursement of funds outlined in sections 1-3 of your report are correct. As you know, as soon as we became aware of this problem, we reported it to the SLD (04 December 2000), and have always complied with SLD/USAC/FCC requests to release information regarding our relationship and business with Connect2 Internet Networks.
2. We acknowledge that, under different administration, ICS incorrectly allowed Connect2 to bill for equipment and services we never received. However, we would like to reiterate that neither Sr. Patrice nor myself were responsible for this action, and that the principal at that time, Sr. Joan Daniel Healy, was not aware that Connect2 was using her signature to embezzle funds from the government. Though we acknowledge her negligence, she was not a willing or knowledgeable accomplice.
3. Regarding item 4 of your report, we acknowledge fault in incorrectly billing during PY4 for (at that time) an ineligible alarm line in the amount of \$280.81. This was not an intentional breach of program rules as I was not aware that a telephone line used for alarm purposes was ineligible. As soon as I became aware of this (during PY5 and PY6), we ceased to file for reimbursement for this line. Though such a line has recently been determined eligible for discount, we are willing to reimburse the SLD for this ineligible charge from PY4.
4. Regarding item 5 of your report, we acknowledge that it appears ICS did not engage in competitive bidding for PYs1-3, all of which occurred before Sr.

Patrice was at the school and before I was responsible for the E-rate program. I inherited no documentation to prove otherwise. Though I was involved in E-rate administration for the first time *during* PY3, the competitive bidding process was of course completed well before PY3 actually began. In addition, because we were not approved for a SPIN change for PY3 (being aware of their fraudulent behavior, we refused to work with Connect2), we never actually used any E-rate internal connection funds for that year.

5. We acknowledge that we did not pay in full our required 10% share during PY1 and PY2. Though we do have documentation (check registers) to prove that the school did make some payments to Connect2, this did not add up to our full 10% share. We hasten to add that we were *never billed* for our full 10% share. Connect2 did issue us back invoices during FY3, which a) also did not add up to the required 10% *and* b) were received after we began filing regarding their fraudulence. For obvious reasons, we never paid these back invoices.
6. We acknowledge that records were not adequately maintained by our cafeteria crew regarding PY1 and PY2 Federal Free Lunch Program eligibility. Since the Archdiocese only requires that such paperwork be kept for three years, the cafeteria record keepers were not aware that older documentation needed to be kept. It simply didn't occur to me to make sure they didn't purge their files. We will take measures to correct this oversight in the future.

In sum, we urge the FCC and the Wire Line Competition Bureau to remember that our administration has changed and since that time we have made enormous efforts to comply with E-Rate stipulations, as noted in the penultimate paragraph of your report. We were also among the first entities to report suspected fraudulence on the part of Connect2 and have always been willing to aid efforts toward project integrity with the SLD, USAC and FCC. Though over-billing did occur during PY1 and PY2 partially through the school's *negligence*, the fault of *fraudulence* lies completely in the hands of Connect2, as the school was not aware of their embezzlement at that time and never received any of the funds resulting from the over-billing.

We also urge the FCC and WLCB to remember that we are a non-profit organization designed to love, serve and educate the children of the South Bronx, and we encourage the FCC and WLCB to do what they can to help us maintain our mission.

Again, thank you for your time.

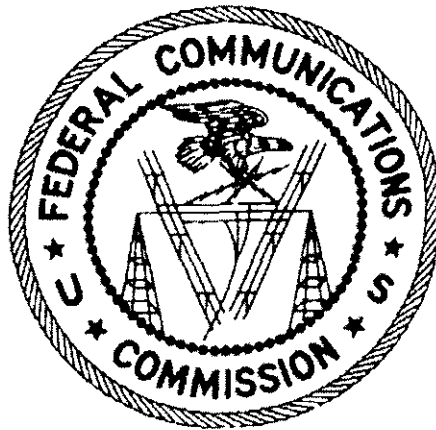
Sincerely,



Sarah Iversen Ito
ICS Development Director
718.585.4843 x.100

FEDERAL COMMUNICATIONS COMMISSION

OFFICE OF INSPECTOR GENERAL



Report on Audit of the E-Rate Program at Immaculate Conception School

Report No. 02-AUD-02-04-20

APPENDIX 2 – Management Response

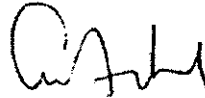
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UNITED STATES GOVERNMENT

Memorandum

DATE: March 22, 2004
TO: Inspector General
FROM: Managing Director
SUBJECT: Draft Report on Audit of E-Rate Program at Immaculate Conception School

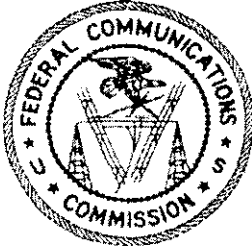
Attached is the Wireline Competition Bureau's response to the draft report on the audit of the E-rate program at Immaculate Conception School. We had asked the Bureau to submit its response to you through OMD. If you have any questions or concerns please contact Jerry Cowden. Thank you.



Andy Fishel

Attachment:
Response to Draft Report on Audit of the E-rate Program at Immaculate Conception School

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Wireline Competition Bureau

MEMORANDUM

DATE: March 17, 2004

TO: Inspector General

FROM: William F. Maher *WFM*
Chief, Wireline Competition Bureau

SUBJECT: Report on Audit of the E-rate Program at Immaculate Conception School.

Attached please find WCB's response to the OIG's audit report on Immaculate Conception School.

Immaculate Conception School

Recommendation 1 of 3: recover the amount of \$68,846 disbursed in funding years 1998, 1999 and 2000.

Wireline Competition Bureau Response: Concur

Explanation: We note that the OIG concludes in finding #1 that ICS did not pay its full nondiscounted share, but states that ICS's actions -- specifically, the fact that it declined to pay for items not provided to it and advised USAC of this situation -- present mitigating factors that preclude a recommendation for full recovery of funding based on this finding. The Commission has never addressed whether waiver of the requirement that a beneficiary pay its full nondiscounted share is appropriate in specific circumstances. Because this is a new and novel issue, WCB plans to recommend to the Commission that it endorse an approach in which mitigating factors justify waiving this rule, and therefore provide a basis for not recovering funds.

Recommendation 2 of 3: WCB should take steps to ensure that funding requests are adequately reviewed in accordance with existing rules and implement procedures to ensure that funding requests associated with this area of noncompliance with program rules are not approved.

Wireline Competition Bureau Response: Concur

Explanation: We agree with the OIG that we should take steps to ensure that funding requests are adequately reviewed in accordance with Commission rules and USAC procedures. We will work with USAC within the next ninety days to determine whether additional procedures are warranted to address the issues identified in the report.

Recommendation 3 of 3: WCB should review those program rules and implementing procedures governing the area of noncompliance cited to in this report to ensure that those program rules and implementing procedures are adequate to protect the interests of the fund.

Wireline Competition Bureau Response: Concur

Explanation: We agree with the OIG that we should review the existing program rules and implementing procedures governing the areas of noncompliance to ensure that program rules and implementing procedures are adequate to protect the interests of the fund. We are already taking action in this regard as discussed below.

In January 2002, based on WCB's recommendation, the Commission initiated a rulemaking to consider, among other things, measures to limit fraud, waste and abuse in the e-rate program. In April 2003, the Commission sought further comment on additional issues relating to E-rate. In December 2003, the Commission adopted an Order that adopted some measures to limit fraud, waste and abuse and sought comment on other issues relating to E-rate.

With regard to finding 2, the December 2003 Order adopted rules prohibiting the transfer of equipment purchased as part of internal connections for a period of three years after purchase, except due to temporary or permanent closing of a school or library branch. The Commission's December 2003 Order also requires beneficiaries to make reasonable use certifications in which they promise to use the equipment purchased with USF discounts at the location and for the purpose requested. To verify compliance with these requirements, the Order also requires beneficiaries to keep an asset inventory for a period of five years. These changes became effective on March 11, 2004.

With regard to findings 6 and 7, the Commission has sought comment on whether program participants should be required to retain records for a period of five years. With regard to finding 4, the Commission is currently seeking comment on whether to adopt additional rules to ensure that applicants make cost-effective funding requests.

In addition, WCB is considering the other findings as part of our ongoing efforts to improve the Commission's oversight over the E-rate program and reduce the occurrences of waste, fraud and abuse.

